MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016/2017

BME1024 – INTRODUCTORY MACROECONOMICS

(All sections / Groups)

08 March 2017
9.00 am- 11.00 am
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 3 pages with 5 Questions only.
2. Attempt **ALL** the questions.
3. Please write your answer in the answer Booklet provided.

QUESTION 1

(a) Why unemployment rate in North America and Western Europe tend to be higher when comparing them to other countries? Explain. (5 marks)

(b) In the following table calculate the real GDP for the year 2011 and 2012 and real GDP growth rate for the year 2012 in a simple economy that produces textbooks, noodles, jeans, cotton and papers. Assume that the cotton is used to produce jeans while 70% of the papers is used for producing text books the rest of the 30% of the paper is used by the consumer for the purpose of writing. (15 marks)

	2005 (base year)		2011		2012	
	Quantity	Price	Quantity	Price	Quantity	Price
Textbooks	100	RM50	120	RM55	125	RM60
Noodles	65	RM6	70	RM8	80	RM10
Jeans	95	RM200	100	RM220	120	RM250
Cotton	120	RM10	130	RM12	150	RM15
Papers	150	RM 2	160	RM 3	170	RM4

(Total 20 marks)

QUESTION 2

(a) Suppose there is large increase in government purchases of a hypothetical country, which was initially at the long run equilibrium. Use the basic aggregate demand and aggregate supply to show the resulting short run equilibrium and long run equilibrium. (11 marks)

(b) Explain **three (3) major factors** that can cause long run aggregate supply to shift to the left. (9 marks)

(Total 20 marks)

QUESTION 3

(a) Use the following bank transactions to develop the bank's balance sheet. To start the bank, owners issue RM500,000 in stock to shareholders. They use part of this money to buy RM300,000 worth of machineries and office equipment space to establish the physical location of the bank. Lastly, they open the bank and receive RM500,000 in checkable deposits. With these reserves, they make RM500,000 worth of loans. (10 marks)

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(b) Explain your understanding of the monetary policy target of the central banks. (10 marks)

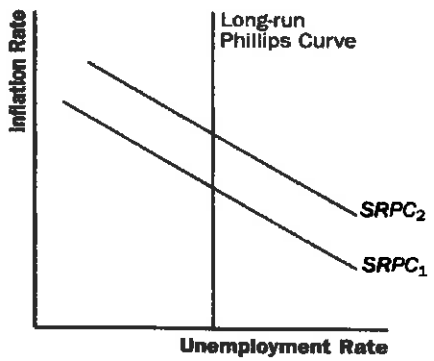
(Total 20 marks)

QUESTION 4

(a) If Malaysia decides to go for Expansionary fiscal policy, what changes should it make in government spending and taxes? What changes should it make if it decides to go for the contractionary fiscal policy? (4 marks)

(b) Based on the graph below, illustrate the long-run trade-off between inflation and unemployment. Explain how the short-run and long-run trade-off are related.

(6 marks)



(c) Given initially the market exchange rate between the US dollar and Japanese yen is \$1= ¥100, the price of an Apple iPhone is \$ 200 in United States and the price of a DVD is ¥500 in Japan. Now suppose the market exchange rate between the US dollar and Japanese yen changes to \$1= ¥150, discuss the effects of this movement in the exchange rate on exports and imports. (10 marks)

(Total 20 marks)

QUESTION 5

(a) What is the balance of payments? Describe **two (2) main** accounts: the current account and the financial account in the balance of payments. (10 marks)

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(b) The following table shows the Big Mac purchasing power parity.

Country	Big Mac Price	Implied Exchange Rate	Actual Exchange Rate	Under (-) / Over (+) Valuation against US dollar, %
Thailand	70 bahts		29.8 baths per dollar	
India	84 rupees		44.4 rupees per dollar	
Indonesia	22,354 rupiahs		8,523 rupiahs per dollar	
Colombia	8,400 pesos		1,771 pesos per dollar	

Assume that the Big Mac is selling for $4.07 in the United States, calculate the missing values in the table. Explain how to determine whether the U.S. dollar is overvalued or undervalued relative to each currency and what will happen in the future to each exchange rate. (10 marks)

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